EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

The President
The White House

Dear Mr. President:

Enclosed is the seventh quarterly report on the activities of the Council on Wage and Price Stability, as required by Section 5 of the Council on Wage and Price Stability Act. This report covers the Council's operations during the three-month period, April 1976 through June 1976.

The first chapter of the report summarizes the quarter's activities in chronological order. Subsequent chapters elaborate on the background and content of these actions and review Council actions in previous quarters. Chapter II focuses on the investigations of price behavior in the private sector conducted by the Council's Office of Wage and Price Monitoring. Chapter III abstracts the activities of the Office of Government Operations and Research in assessing the inflationary potential of actions proposed by federal agencies.

During this quarter, the Council has been particularly concerned with observing price behavior as the economy recovers from the 1973-75 recession, both as this behavior compares with previous recovery periods and as it varies among specific industries. The Council has also pursued its interest in the steel industry through studies, symposia, and investigations of specific price increases; and it has issued its first report of several on the health care industry and is holding a series of public hearings on rising costs in this sector. Analyses of these two industries, as well as the paper industry, certain chemicals and metals industries, auto replacement parts, and some aspects of the food industry are continuing. The Council has also continued to evaluate and comment on the economic impact of government agency actions and to study the effect of government regulation and of regulatory reform on the private sector.

The Council will continue these and other activities in the coming quarter and will call your attention to wage and price developments that could be of interest.

Respectfully,

William E. Simon
Chairman

L. William Seidman
Deputy Chairman

William Lilley III
Acting Director

COUNCIL AUTHORITY

Congress created the Council by enactment of the Council on Wage and Price Stability Act on August 20, 1974 (Public Law 93387) This Act, which contained an expiration date of August 15, 1975, was amended and extended until September 30, 1977, by Congress' enactment on August 9, 1975, of the Council on Wage and Price Stability Act Amendments of 1975 (Public Law 9478, signed on August 9, 1975). The text of the Act, as amended, is set forth in Appendix B.

It is the Council's responsibility under the Act, to monitor and analyze inflationary activities throughout the economy. In the private sector, the Council examines price and wage activities for inflationary impact. The Council conducts comprehensive studies of certain major industries as well as investigations of specific price or wage increases as they are announced. These investigations are intended to discover whether price increases are warranted by cost or demand considerations. In some instances, the Council has held public hearings to gather data and has issued public reports of its findings. Where the Council has found a wage or price increase to be inflationary, it has issued public statements of its findings and, on occasion, has requested a delay or a reduction in the increase.

The Council also reviews the activities and programs of the departments and agencies of the Federal Government to discover whether they have any inflationary impact. It does this in two ways. First, pursuant to Executive Order 11821 and OMB Circular A107, the Council reviews the "inflation impact" analyses that the Executive branch agencies are required to make of proposed rules and regulations that would have a "major" economic impact. Second, with respect to the independent regulatory agencies as well as the Executive branch agencies, the Council, pursuant to its statute, "review(s) and appraise(s) the various programs, policies, and activities of the departments and agencies of the United States for the purpose of determining the extent to which those programs and activities are contributing to inflation; and intervene(s) and otherwise participate(s) on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States, in order to present its views as to the inflationary impact that might result from the possible outcomes of such proceedings."

The Council has no legislative authority to impose mandatory controls on prices, wages, and interest, rents, profits, dividends or other payments, nor has it the authority to prevent or delay any federal agency action.

CHAPTER I
THE QUARTER AT A GLANCE

The following chronology highlights developments in the activities of the Council on Wage and Price Stability during the second quarter of 1976. Chapters II and III elaborate on the background and content of many of these actions, and the numbers appearing in parentheses below refer to the Council press release dealing with these actions.

April 12: The Council filed comments before the Environmental Protection Agency (EPA) regarding its proposals to expand the definition of light-duty trucks and to tighten emission standards for trucks of this type. The Council acknowledged that the regulations would reduce air pollution but noted that they would also substantially increase the cost of these trucks and might indirectly cause an increase in fuel use. The EPA was urged to investigate and compare the cost-effectiveness of alternative pollution control techniques (CWPS-140).

April 12: The Council supplemented its previous endorsement of the Civil Aeronautics Board's (CAB) proposal to permit advanced booking charter service. This service would lower substantially the cost of some domestic and international air fares. The Council recommended that CAB consider allowing scheduled airlines to provide similar service and that no minimum rate be required.

April 15: The Council filed comments with the Interstate Commerce Commission (ICC) encouraging the adoption of definite guidelines for determining "market dominance" in the rail transportation industry. The effect of applying these criteria would be to limit ICC rate intervention to cases where significant dominance exists and to create a presumption in favor of competitive rate setting (CWPS-141).

April 20: The Council, in comments filed with the Department of Interior, urged the issuance of regulations that would permit leasing of western coal land owned by the Federal Government. The Council strongly recommended that the regulations be clarified in order to avoid unnecessary litigation (CWPS-142).

April 26: The Council issued its staff report on The Problem of Rising Health Care Costs. The report measured the extent of inflation in this sector and related the structural characteristics of the health care industry to its price behavior. The report also assessed the impact of rapidly rising medical care prices on consumers, industry and government.

April 27: The Council circulated for comment the draft of a paper prepared by Professor Paul Marshall of the Harvard Business School. The paper summarized the discussion during a Council-sponsored symposium on steel, which was held on December 16, 1975. The symposium, which included steel industry representatives as well as government and private economists, was concerned with pricing behavior, import policy, and possible future capacity shortages in the steel industry (CWPS-144).

April 30: The Council announced it would undertake a short-term review of recent price increases for a variety of steel mill products. The Council said it would also begin a separate longer-term study of recent price behavior in several metals-producing industries, including steel, copper, aluminum, lead, zinc, and magnesium (CWPS-145).

May 4: The Council issued its staff report on antifreeze prices. The report reviewed 1976 wholesale price increases in this product in the context of structural factors in the inudstry and of price-cost trends over the 1970 to 1975 period (CWPS-146).

May 7: The Council filed comments supporting regulations proposed by the Federal Trade Commission (FTC) that would eliminate state and local restrictions against advertising by ophthalmologists, optometrists, and opticians. The Council said that the regulations would increase the availability of consumer information, induce more price competition, and result in lower eye care costs (CWPS-147).

May 10: The Council issued its staff report, Price Behavior During the 1973-75 Recession. The report compared price behavior during this period with that during previous recessions. It also examined the relationship between industrial concentration and inflation (CWPS-148).

May 10: The Council filed comments criticizing regulations proposed by the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board (FRB) which would restrict interest rates paid on pooled time deposits of $100,000 or more. The Council questioned the effectiveness of the proposals, noted the possibility of substantial cost burdens falling on lower- and middle-income savers, and urged that the expected social benefits of these proposals be analyzed (CWPS-150).

May 11: James C. Miller III, Assistant Director of the Council, and John F. Morrall III, Senior Economist, testified in hearings before the Occupational Safety and Health Administration (OSHA) on its proposed standard for exposure to coke oven emissions. They questioned the quality of the data submitted and suggested that the costs of the proposed standards, in terms of statistical lives saved, were excessive compared with other health and safety expenditures (CWPS-149).

May 12: The Council released its staff report, Prices for Agricultural Machinery and Equipment, an analysis of the sharp price increases for heavy agricultural equipment during 1974 and 1975. The major factor appeared to be unusual demand pressures coupled with inadequate productive capacity in this industry. The report concluded that long-range price pressures

have moderated and that capital expansion, already underway, may help contain price movements in the future.

May 12: Council Assistant Director James C. Miller III testified before the House of Representatives' Public Works and Transportation Committee's Subcommittee on Aviation on H.R. 10261, the Aviation Reform Act. Miller endorsed the legislation's contribution to a more competitive environment among airlines by reducing regulation of the industry. In the Council's opinion, the bill would result in greater efficiency in the use of resources, lower air fares, and better service (CWPS-151).

May 12: The Council filed comments before the Food and Drug Administration (FDA) supporting its proposal to require drained-weight labeling of all canned fruits and vegetables. The Council said that consumers would benefit in terms of increased information and competition. It recommended that FDA establish specific enforcement policies to avoid undue cost increases stemming from uncertainty among canners (CWPS-152).

May 17: The Council wrote to the Environmental Protection Agency (EPA) about their proposed water effluent guidelines for certain sectors of the pulp and paper industry. The Council expressed its concern that EPA's analysis of the cost-effectiveness of its proposal was inadequate to determine whether economic efficiency would be enhanced by the regulation.

May 18: The Council held hearings on paper prices, receiving testimony from representatives of the paper industry, government, and private consulting firms. William Lilley III, the Acting Director of the Council, expressed the Council's concern about price movements in this industry and its interest in productive capacity needs as they relate to price behavior and to environmental considerations. Russell Pittman of the Council staff presented a prospectus of the Council's current study of price behavior in the paper industry (CWPS-153).

May 20: The Council, in cooperation with the National Center on Productivity and the Quality of Working Life, announced that it had contracted with Policy Models, Inc., under the direction of Paul W. Marshall and Howard H. Pifer, to collect, summarize, and evaluate existing estimates of the economic impact of Federal regulations on the steel industry. Their study will also review methologies that could be used in developing new economic impact estimates on these regulations. The contract represents one phase of the Council's overall study of the effects of Federal regulation on the steel industry (CWPS-154).

May 20: James C. Miller III, Council Assistant Director, testified before the House of Representatives' Science and Technology Committee's Subcommittee on Aviation and Transportation Research and Development about the effect of regulatory reform on technological change in the aviation industry. Miller said that increased market competition would act to encourage innovation (CWPS-155).

June 1: The Council filed comments with the Consumer Product Safety Commission (CPSC) on its proposal to upgrade safety standards for matchbooks. On the basis of the preliminary evidence, the Council said that the proposal would be inflationary; however, it recommended that better evidence be developed (CWPS-157).

June 2: The Council held a symposium to discuss the draft of a paper analyzing trends in the relative wage differentials between union and nonunion workers. The paper, commissioned by the Council, was prepared by Professor Orley Ashenfelter of Princeton University. The draft concluded that the union/nonunion wage gap varies across industries and occupations and that it has generally been widening over time.

June 9: James C. Miller III, Council Assistant Director, testified before the Federal Energy Administration (FEA) on its proposed target standards for increasing the energy efficiency of home appliances; Council staff comments substantiating this testimony were also filed. The Council generally supported the proposal but felt that more complete analysis of the likely costs and benefits should be completed before final target standards were set (CWPS-160).

June 11: The Council issued its short-term study of recent price increases for flat-rolled and other steel mill products. The study found that steel price increases since 1972 were roughly comparable with increases in the overall wholesale price index and that cost increases over this period generally exceeded price increases. The Council said the recent sharp price increases might be partially related to increased demand, as user-industries recover from the recession (CWPS-162).

June 14: The Council filed comments before the FDIC and the FRB in support of a proposal to allow depositors to authorize their banks to cover overdrafts on checking accounts by transferring funds from savings accounts. The Council said these proposals would save the cost of processing returned checks and would benefit consumers by permitting them to hold proportionately larger amounts of money in interest-bearing savings accounts (CWPS-163).

June 24: The Council questioned several aspects of regulations proposed by the EPA that would impose progressively stricter water effluent guidelines for the iron and steel industry. Basic issues raised by the Council included the economic efficiency of the overall 1983 standards and the cost-effectiveness of the 1977 standards (CWPS-165).

June 24: The Council asked the Interstate Commerce Commission (ICC) to reevaluate its recent proposals to promulgate comprehensive adequacy-of-service standards for the intercity bus industry. The

Council noted that the proposed standards appeared very costly and that, in many instances, the benefits to consumers would not be as great as the costs they would incur (CWPS-166).

June 25: A study of the inflationary potential of the administration of the Davis-Bacon Act was sent to the Secretary of Labor. The study found that, in certain cases, the administration of the Act could be inflationary. The Council recommended that these aspects of the Act's administration be reviewed periodically.

June 29-30: The Council held the first of three public hearings on rising health care costs. This hearing was held in New York; subsequent hearings are scheduled for Chicago in mid-July and San Francisco in early August (CWPS-164 and 167).

June 30: The Council filed comments before the U.S. Coast Guard objecting to the proposed retrofitting of certain existing foreign and domestic oil tankerships with segregated ballast facilities. The Council pointed out that available evidence does not indicate that the benefits of this regulation would exceed its costs. The Council urged the Coast Guard to consider alternative, more cost-effective means of protecting the marine environment (CWPS-169).

CHAPTER II
MONITORING THE PRIVATE SECTOR

The Council's responsibility to identify and analyze inflationary influences in the private sector extends to long-term, structural factors that may affect price and wage movements as well as to specific increases. These studies are conducted by the Council's Office of Wage and Price Monitoring, under the direction of Robert W. Crandall.

In its pricing studies, this office investigates capacity, profit, price, demand, and supply conditions in specific industries or sectors. It also analyzes structural features and changes in the general economic environment -- industrial concentration, noncompetitive practices, comparative price behavior, and other factors -- that may affect the performance of the economy with respect to prices.

In monitoring wages, the Office of Wage and Price Monitoring observes particular collective bargaining negotiations and cooperates with labor and management to improve the structure of collective bargaining. In addition, it analyzes the effect on the economy of structural differences in compensation methods and levels.

Reports on these studies are available to the public, and a list of them may be found in Appendix D.

PRICE MONITORING

The Office of Wage and Price Monitoring has undertaken several major studies since the creation of the Council. In addition, it has conducted several investigations in response to complaints of excessive prices and in search of new areas requiring its attention.

Reports on these studies have been and will be made available to the public. These studies are used, where appropriate, to urge firms to exercise price restraint. The pricing studies, usually done on an industry-wide basis, cover all relevant aspects of the industry.

What follows is a description of the activities of the Office of Wage and Price Monitoring organized by industrial category. It includes all significant actions by the Council in those areas.

Metals

Steel

A probe into steel prices was initiated in December 1974. Shortly thereafter, in late December, the major steel companies announced price

increases. Acting on a directive from the President, the Director of the Council persuaded three steel firms to roll back part of their announced price increases and to agree not to raise prices until June 1975. U.S. Steel Corporation, the price leader, which had announced price increases of 4.7 percent, rolled back its increases by slightly less than 20 percent.

The Council released its report in mid-September 1975. The report examined the following issues: price behavior in the steel industry; the performance of profits relative to prices and costs; future supply, capacity and price; and the data base for steel prices. The Council invited written comments on the study and, on December 16, 1975, held a public symposium so that steel industry representatives, financial analysts, and economists could exchange ideas and information with regard to some of the issues treated in the report.

The symposium was chaired by Professor Paul Marshall of the Harvard Business School. During the symposium, executives from several large steel companies expressed concern that they would be unable to expand capacity enough to meet the demand for steel by 1983; other participants questioned the accuracy of industry demand forecasts. There was also considerable disagreement as to whether domestic steel users would be able to complement their domestic purchases with foreign steel during economic peaks. Debate in a second session of the symposium centered on whether steel pricing behavior is competitive and whether competitive pricing is, in fact, desirable. Professor Marshall's report synthesizing the issues discussed during the symposium was released on April 27, 1976.

Another major Council involvement with steel pricing occurred in August 1975, when one of the major producers announced a 9 percent increase in the price of flat-rolled carbon steel products. Although the Council recognized that costs had gone up, it was concerned because the state of demand in the steel industry did not seem to warrant a price increase at that time. The Council stated publicly its disagreement with the timing of this increase, and it urged other producers to exercise restraint. Subsequently, U.S. Steel announced a smaller increase on flat-rolled products effective October 1 -- a delay of almost 60 days -- and the other companies followed suit.

During the second quarter of 1976, major steel producers announced new price increases of 6 to 9 percent for a variety of finished steel products, including flat-rolled, rail, bar, structural shapes, plate, and pipe and tubing products. At the request of the President, the Council investigated the proposed increases and issued its report on June 11, 1976.

Because economic factors varied widely in their effect on the steel industry in recent years, the Council's analysis of the most recent price increases was in the context of trends and developments in the

industry and in the national economy between 1972 and 1976. Although steel prices during this period did not change at the same month-to-month pace as the wholesale price index for industrial commodities, price increases over the entire period were roughly comparable. In 1975, steel prices rose less than the average for all industrial commodities.

A high level of demand during the early part of the period -- particularly during 1973 and 1974 -- was followed by a sharp decline during the recession period, which resulted in inventory accumulation and a low rate of capacity utilization. In the first half of 1976, with at least partial recovery of demand, excess capacity shrank rapidly and in May was slightly less than 10 percent -- a little better than the 1972 level.

Input costs rose only moderately during 1972 and 1973 but increased by more than 46 percent between the fourth quarters of 1973 and 1974. Mill products costs for the whole period were up by 78.8 percent. In spite of these cost increases, profit levels were somewhat higher in the first half of 1976 than in 1972; however, they are still considerably lower than in the peak year of 1974.

The Council found that the 1976 price increases probably represented an attempt by the industry to recover excess cost increases and to respond to the postrecession resurgence of demand for steel products. It noted, however, that the recovery in demand varied sharply among different steel mill products and that the across-the-board price increase did not reflect this variation. The Council is now devoting further study to these factors.

Effect of Government Regulation on the Steel Industry

It has been apparent for some time that the steel industry is substantially affected by Federal regulations. In an effort to document Federal regulations of the steel industry and to study the effect of such regulations, the Council in April began compiling a catalog of Federal regulations that significantly affect the steel industry. The Council held a public meeting on April 28, 1976, attended by representatives from the steel industry, the United Steelworkers Union, public interest groups, and other government agencies to discuss the cataloging project.

The heart of the catalog will consist of 8-10 chapters outlining major areas of regulatory impact (e.g., environmental, health and safety, international trade, employment practices). Each chapter will describe the particular regulatory scheme and will identify and discuss particular regulations affecting the iron and steel industry. The catalog will identify those regulations particularly affecting the industry which were subjected to cost/benefit analysis. In addition, the catalog will help to identify major areas of Federal regulatory overlap and to draw comparisons between different regulatory approaches. Drafts of the chapters will be made available for review by relevant government agencies, industry and labor representatives, and public interest groups. In

addition, a notice will be placed in the Federal Register soliciting additional comments from the public.

Aluminum

The Council began to collect price and cost information from the leading aluminum companies in January 1975, after sharply declining shipments failed to bring about price decreases. This information was supplemented by meetings with aluminum company executives, by solicited and unsolicited communications with commercial users of aluminum, and by information obtained from the Bureau of Labor Statistics.

A preliminary report on this study had already been drafted when the major aluminum producers announced a series of prices increases, most of which were scheduled to become effective on July 7, 1975. The scheduled increases averaged about 3 percent across the entire spectrum of products. The major companies were asked to delay the proposed increases for 30 days to allow the Council time to analyze cost data and to hold hearings on factors relevant to the price increase. The aluminum companies agreed to postpone the announced price increases until August 1975.

Following its July hearings, the Council acknowledged that some increase in costs might have to be recovered eventually through higher prices, but it disagreed with the timing of this price increase because of the industry's low level of capacity utilization. However, the list price increases did take place as planned, and these prices held into late autumn of 1975, when some discounting was observed.

In December 1975, a revised preliminary draft of the aluminum study was sent for review to the primary aluminum producers, the United Steelworkers Union, the Aluminum Workers International Union, three trade associations in the industry, members and adviser members of the Council, and academic economists. Their comments became the basis for a substantial revision and expansion of the study. In late June 1976, the report was again submitted for review to essentially the same parties. The Council plans to release the study in the fall.

Metal Cans

A study of metal can prices was begun in late January 1975 and completed in June 1975. The study had two purposes: to inquire into an 8 percent price increase that had been announced in January 1975 and to pursue the Council's general interest in concentrated industries. On the basis of information provided by the major can companies as well as published data, the study concluded that:

(1) the January 1975 price increases were not warranted by economic factors. Although cost increases partially motivated the price increase, higher costs in 1974 were more than recouped by price increases and other gains.

In fact, 1974 was an excellent year for the can industry, and return on equity rose to the national average for all manufacturing industries.

(2) despite the high degree of concentration in metal can production, competitive pressures contributed to a subsequent retreat from the announced price increases. These forces included the potential for vertical integration by canners; competition from glass, fiber, and plastic containers; and the divergence of interest between the four can companies that manufacture both aluminum and tin cans and the two companies that manufacture only aluminum cans.

Zinc

After New Jersey Zinc proposed a 5 percent increase in list prices in spite of excess capacity in the zinc industry, the Council announced on October 8, 1975, that it would actively monitor zinc prices. Other producers did not follow New Jersey Zinc's lead, and the company cancelled its planned increase. On November 4, the Council dropped its active monitoring of zinc prices. However, on April 30, 1976, the Council announced that zinc, among other metals, would be included in its comparative study of metals price behavior, as discussed further below.

Pricing of Metals

On April 30, 1976, the Council announced that it was undertaking a comparative study of recent price behavior in the steel, copper, aluminum, lead, zinc, and magnesium industries. The Council said it would review recent trends in production, shipments, inventories, orders, costs, gross margins, imports, and import prices. The purposes of the study are to analyze the factors underlying recent price increases and to determine whether the timing and magnitude of these increases are consistent with price movements occurring during earlier recovery periods. The Council has requested relevant data from the various producers of these metals and will make its findings public as it completes its studies.

Chemicals

Antifreeze

On May 4, 1976, the Council released its study of antifreeze prices. The study was begun last fall when Union Carbide, Dow Chemical Corporation, and PPG Industries raised their wholesale prices of antifreeze an average of 23 cents per gallon, or 20 percent. The report found that:

(1) the 141 percent increase in consumer expenditures on antifreeze in 1975 compared to 1972-73 levels was due to

the 155 percent increase in the retail price of antifreeze in 1974.

(2) producers did not raise 1976 prices in order to recoup unrecovered cost increases; in fact, wholesale prices rose faster than costs between 1970 and 1975, resulting in rising sales for Dow Chemical and Union Carbide between 1971 and 1975 -- particularly since 1972.

(3) ample supplies of ethylene glycol will be available for antifreeze production in 1976, and therefore retail prices of antifreeze are likely to decline in 1976.

Chlorine and Caustic Soda

The antifreeze study was part of a larger chemical industry study initiated in February 1975. At that time, the Council began to monitor the prices of a number of industrial chemicals to see if the downturn in economic activity would put downward pressure on prices and profit margins. Although there was a decline in their rate of increase, prices rose substantially in the first quarter of 1975. The prices of chlorine and caustic soda, for example, rose 22 percent between December 1974 and May 1975.

In June 1975, a major producer announced price increases for caustic soda, and other producers followed suit. Because of substantial profit margins realized on these products in 1974 and the depressed demand conditions of early 1975, these increases were not warranted in the view of the Council staff. As a result, the Council initiated a more detailed investigation into the pricing of these two products.

Data on prices, costs, production, and inventories were submitted to the Council by several chlorine-caustic soda manufacturers. These data, along with data from public sources, have been analyzed by the Council staff. Special attention was given to: (a) the structure of the industry; (b) the nature of the price response during the recent November 1974 to June 1975 contraction in demand for chlorine; and (c) the profits, capacity, and price outlook over the next five years. A draft of the report on this study has been sent to academic economists, producers of chlorine and caustic soda, labor unions, and others for comment; the final report will be issued next quarter.

Automobiles

1976 Model Prices

The Council staff looked into the prices of 1976 model automobiles to determine how much they had increased and where the increases had occurred. The results of this investigation--released November 11, 1975--suggested that, going into the 1976 model year, the automobile industry was suffering a profit squeeze at both the wholesale and retail levels--a squeeze most likely reflecting efforts to recapture sales lost to the recession and to import competition.

In December 1975, with the 1976 model year already partly gone, Ford announced a new price increase. By this time, the outlook for the industry had brightened considerably. Sales for the first three months of the model year--October through December 1975--were 30 percent over the comparable period of 1974, and import penetration was decreasing.

In order to evaluate the December Ford price increase, the Council staff requested the four domestic automobile producers to submit information on any changes that had occurred in their estimated 1976 model year costs since their earlier submissions. This information showed that Ford's latest price increase was still not enough to offset the full 1975-76 increases in costs, but it was considerably greater than the average industry increase in projected costs that had been reported to the Council.

An update of the original report, detailing this cost and price information, was released by the Council on January 12, 1976. On January 15, 1976, Ford announced it was rescinding the price increase on base cars but that the increases in the prices of optional equipment would remain in effect.

Replacement Parts

On February 18, 1976, the Council announced an investigation of increases over the last two years in the prices of automobile replacement parts. Measured by the wholesale price index for auto parts--a composite index for original equipment parts and for replacement parts--prices increased 23.8 percent in 1974 and by another 9.9 percent in 1975. For the same periods, the wholesale price index for new cars increased by 12.9 and 6.0 percent, respectively. Data provided to the Council by several automobile insurance companies revealed that the most rapidly rising prices were those for crash replacement parts; prices for maintenance parts have been rising less rapidly in the last year.

The Council decided that an in-depth investigation of these price increases was required. While the investigation will focus on crash parts, it will also include maintenance parts prices. Price and cost data are being collected to analyze the causes of increases in these prices. The automobile manufacturers have submitted price information for each year since 1971 on all replacement parts sold by them. The Council staff has compiled samples of both crash and maintenance parts prices for analysis, and the automobile manufacturers have been requested to also supply cost and quantity information for those parts. Independent parts manufacturers have provided information regarding the parts they produce for both the original equipment and replacement markets. The independents have been requested to provide information on prices and costs for selected parts. A report on the findings of this study will be released.

Tire and Tube Industry

Early in 1975, the Council began to monitor the prices of tires at the manufacturing level. Examination of data provided by firms indicated that profit margins had not increased greatly. During 1974, the tire industry had been unable to achieve more than "cost pass through" and in the case of certain basic tires, failed to fully recover increased costs. When the economic recovery began in the second quarter of 1975, firms raised list prices between 4 and 6 percent. Though the industry is concentrated, its pricing policies seem to have been restrained by both the power of its customers and the potential for new entry.

Food

Cereals and Bakery Products

In April 1975, the Council began an investigation into prices of cereals and bakery products. The wholesale and retail prices of these products had been slow to respond to large reductions in the prices of flour, wheat, corn, sugar, shortening, and milled rice. The Council's preliminary findings were released in January 1976, along with an announcement that a more comprehensive study was being launched. The preliminary analysis concluded that the combination of rising profit margins and considerable economic concentration in the cereal and breadbaking industries raised doubts as to whether commodity cost savings are being reflected in retail prices. A final report will be issued.

Flour

In August 1975, the Council staff asked the three largest flour millers (Pillsbury, General Mills, and International Multifoods) for an explanation of announced flour price increases. The increases were based on rising wheat future prices. In a staff report on October 29, the Council concluded that the behavior of flour prices had been what would be expected, given the bahavior of wheat prices. Over the last few years, the wholesale price of family flour has moved closely with the price of wheat during periods of rising and declining prices. Because wheat accounts for somewhat more than 50 percent of the total wholesale cost of flour, changes in wheat prices are rapidly translated into changes in flour prices.

Sugar

In 1974, the Council began an investigation of the sugar industry because of abrupt price increases which had caused consumer hoarding. On November 25 and 26, the Council held public hearings in an effort to discover the causes of the price rise and to seek ways of bringing the price of sugar down to more reasonable levels. Testimony was heard from members of Congress, sugar growers and processors, sugar-using industries, labor organizations, and consumer groups.

The Council encouraged restraint in the use of sugar so as to help bring down the price. In particular, the Council staff urged soft drink bottlers and distributors to create a price differential between soft drinks sweetened with sugar and those containing little or no sugar so as to increase the use of diet drinks.

Following the hearings, the price of sugar began to decline due in large part to consumer resistance to high sugar prices, which the Council's public hearing may have helped mobilize. The Council released its staff report on sugar prices in May 1975.

Shelf Inventory Repricing

Because of widespread irritation among price-conscious consumers over the common practice of raising the price of goods already on the shelf, the Council, together with the Office of Consumer Affairs, held a public hearing on November 13, 1974 on the repricing of shelf inventory in retail stores, especially food stores. A final report was issued on December 8, 1974.

The bulk of the evidence suggested that policies against the repricing of shelf inventory in large food stores reduced consumer irritation, lowered labor costs, and promoted the proper rotation of stock. The Council's final report strongly urged that all food chains adopt policies against repricing or adopt alternative policies to accomplish the same effect. The Council recommended against the passage of federal legislation or of new local ordinances to make "no repricing" policies mandatory.

Marketing Spreads

In December 1974, the Counci
interpretation of farm-retail pri
of Agriculture. Concern about fo
spreads has been recurrent during
and farmers have believed that "m
been sharp shifts in the farm val
during the past two years, and mo
to interpret short-run movements
lags in adjustment.

The Council's report, releas
spread data for "choice" beef. I
between the size of reported pric
packer or retailer gross margins
interpretation rather than to mea
that measures of gross revenue be
explicitly take account of change
marketing firms. This would provi
net margins or profits and would
such as the recent past, when bot
changing rapidly.

Early in 1976, the Council c
econometric study of how changes i
dients, labor, transportation, and
and retail prices for thirty finished
will be released shortly.

Farm Machinery

On May 12, 1976, the Council released a study of the agricultural machinery industry. The study was begun the previous summer, motivated by concern about the inflationary impact on food prices of the substantial price increases of farm machinery in 1974 and the first half of 1975. The report concluded that the relatively sharp increases in prices for large pieces of equipment reflected an abnormal surge in demand caused, in turn, by an abrupt rise in the demand for U.S. grain products. This unusual demand pressure resulted in a shortage of critical raw materials and certain fabricated materials and consequently in large price increases beginning in 1974.

The industry, in response to these demand pressures, instituted a major capital expansion program in 1974, which was designed explicitly to ameliorate shortages of productive capacity for large tractors and combines. This put the industry in a better position to accommodate the continuing high level of demand without the sharp price increases that occurred in 1974 and early 1975.

Energy

Coal

On March 16, 1976, the Council released its report on coal prices begun the previous July. The report was prompted by the seemingly abnormal behavior of coal prices in recent years. It concluded that the sharp increase in coal prices which occurred between September 1973 and November 1974 reflected an abnormal surge in demand for a product whose supply could not be expanded immediately. The abrupt increase in demand was caused by a quadrupling of the price of imported oil and by near-panic buying in anticipation of the coal miners strike of November 1974. The behavior of coal prices was precisely as might be expected in a competitive natural resource market under these circumstances.

The sharp increases in prices led to similarly sharp increases in coal company profits in 1974 and 1975, but as coal demand receded from its peak level in November 1974, coal prices also declined. The report found the degree of concentration in the coal industry to be less than that of the average manufacturing industry in the United States.

The report projected that the outlook for coal prices in the next decade is favorable, with good prospects for stable prices and--in some parts of the country--declining prices. However, the actual price level for coal will depend on several uncertain factors: the development of western coal, federal environmental policies regarding sulfur oxides emission, strip-mining reclamation and coal land leasing, and future growth rates in demand for generation of electric power--presently, the major single use of coal.

Paper

On March 30, 1976, the Council announced it was undertaking a study of prices in the paper industry. Paper industry sales account for about 2 percent of the gross national product, and the wholesale prices of paper products have been rising in recent months at a substantially faster rate than wholesale prices for other commodities. From November 1975 through February 1976, wholesale prices of pulp, paper, and allied products increased at an annual rate of 10.9 percent, more than four times faster than the rate of increase for all commodities. At the same time, the industry has been operating at approximately 85 percent of capacity--about 10 percent greater than the rate for all manufacturing industries.

The Council is studying past, present, and future behavior of prices and rates of capacity expansion in the industry, including the likely impact of any capacity problem on the future course of paper prices. At present, the study is proceeding in several directions:

(1) price information is being gathered to analyze the upward price activity of late 1975 and early 1976; (2) econometric investment equations are being tested in an attempt to better understand the investment behavior of the past fifteen years and to discover the nature and extent of any recent changes in the determinants of investment; (3) nine major paper producers have been asked for cost data on mills constructed within the last ten years, and this information will be used to complement the econometric analysis of investment in the recent past and in the current investment climate. In addition, the Council in a public hearing on May 18 received testimony from paper manufacturers, government agencies, and outside experts on the status of prices in the paper industry.

Health Services

Hospital Charges

Because of concern over rapidly rising hospital charges, the Council, on June 5, 1975, commissioned a hospital industry price and wage study to be done by Martin Feldstein, Professor of Economics at Harvard University, who has written extensively on health care economics. The study will consist of three separate but closely related parts: (1) a general analysis of hospital cost and wage increases during the past decade; (2) an economic and statistical analysis of hospital costs based on observations for each state; and (3) a microeconomic analysis of a sample of individual hospitals.

Health Care Prices

During late 1975 and early 1976, the Council became concerned about the rapid escalation of prices in the entire health sector. The medical care services component of the Consumer Price Index rose 11.6 percent during the six-month period ending in May 1976, compared with 6.9 percent for all other services. Drug and prescription prices, which have rarely increased more than 1 percent annually, rose 6.9 percent over this same period. The Council is making an effort in several directions to analyze the reasons for the steep rise in health care prices.

In March 1976, the Council circulated widely the draft of a staff report on increases in health costs. Extensive comments were received, and the final report was issued on April 26th. The report documented the extent of inflation in health care services and assessed its impact on consumers, labor, industry, and government. It also examined the unique structural characteristics of the industry--the prevalence of third party payments, health insurance financing, high levels of government support, the physician's role, and the rapid pace of technological change.

The study found that health care prices have been increasing much faster than other prices in the economy due to several factors: improvement in the quality of services provided, the "bulge" effect following the ending of wage and price controls in April, 1974, and sharp increases in factor costs. The structure of the health industry also contributes to long-run upward price pressures; demand is boosted by third party payments that obscure the impact of health expenditures on household budgets, and incentives to reduce costs and improve efficiency are weak. Although benefits are difficult to calculate, indications are that large additional expenditures on medical care may be a high-cost way of improving national health.

The Council is currently holding a series of three public hearings addressed to the problem of rising health care costs. The first was held in New York on June 29 and 30, 1976; subsequent hearings will be held in Chicago on July 20 and 21 and in San Francisco on August 10 and 11. The purpose of the hearings is to focus public attention on rapidly increasing health care costs and to highlight specific programs instituted by employers, unions, providers, insurers, and others in the private sector to curtail these cost increases.

General Price Studies

Capacity Shortages

The Council has begun a preliminary inquiry into capacity problems which may be faced by several industries in the next three to five years. Capacity issues are addressed as part of the ongoing studies of the steel and paper industries, but other industries, such as textiles, cement, and glass, may warrant specific capacity studies. Preliminary studies of short-term price and profit histories have been completed for the cement and glass industries.

Several macroeconomic capital requirements studies published in the past year are now being reviewed by the Council. These studies generally estimate short-term potential domestic production and then try to determine whether enough savings will be forthcoming to generate that level of investment. All of the studies indicate that savings flows will be sufficient, given certain assumptions.

Price Measurement

One of the mandates given to the Council is to improve wage and price data bases for the various sectors of the economy. In its studies, the Council staff has encountered many problems with the Wholesale Price Index (WPI). These problems were noted in a speech by the Council Director on May 20, 1975, at which time a study of the adequacy of the WPI for wage/price monitoring was announced. This study is being conducted by Yale University Professor Richard Ruggles through the National Bureau of Economic Research.

Economic Concentration

On April 14, 1975, the Council held a Conference on Concentration, Administered Prices and Inflation in which twenty-one economists from universities, government, and congressional staffs participated. The Council staff has also done independent research into the question of the inflationary effect, if any, of administered prices. In addition, in the course of its industry studies, the Council observes the effect that concentration may have on the pricing behavior of particular industries.

Professor Ralph E. Beals of Amherst College was commissioned to prepare a summary of the Council's conference and to review the research on the subject of concentration in industry. His paper, released in June 1975, concluded that empirical evidence supported the view that prices in concentrated industries behave differently than those in unconcentrated industries over an entire recession cycle. On average, prices in concentrated industries showed greater cyclical stability. Beals noted, however, that there was great disparity in the movement of industrial prices, and that in no period was concentration alone enough to explain a large part of the price variation.

Price Behavior

The effect of concentration on pricing behavior was also one facet of the Council staff study, "Price Behavior During the 1973-75 Recession," which was issued on May 11, 1976. The report focused specifically on three questions: How did price behavior during this most recent recession compare with that during earlier recessions? Were there discernable differences in price movements during the time period under examination? To what extent might any differences in price behavior among industries be attributable to differences in the degree of industrial concentration?

The report's findings indicated that (1) prices were less responsive to recession-induced declines in demand during this recession than during previous ones; (2) prices rose at a slightly higher rate following the removal of controls in April 1974 and at a slower rate during the most severe stage of the recession (after October 1974); and (3) the data suggest that prices in concentrated industries are less responsive to declines in demand and sales than those in unconcentrated industries, but the evidence is not conclusive at this juncture.

This study is a first step in a continuing study of the determinants of price behavior. In the current phase of the study, the staff is including cost and demand variables in the analysis to see if the concentration/inflation relationship holds up.

The Council has also commissioned the National Bureau of Economic Research, with Dr. Joel Popkin as principal investigator, to develop a quarterly model of price behavior by stage-of-process for the industrial sector of the economy. The research is centered on price relationships for intermediate and finished goods production in each of eight primary manufacturing industries: textiles, lumber, paper, chemicals, fertilizer, nonferrous metals, and stone, clay and glass. Dr. Popkin will provide the research results to the Council as they become available from July 1976 through June 1977. The Council plans to use this model for current analysis and for future forecasting.

WAGE MONITORING

The Council on Wage and Price Stability Act authorizes the Council to work with labor, management, and appropriate government agencies to improve the structure of collective bargaining and the performance of those sectors in restraining prices. Under this mandate, the Council monitors and analyzes collective bargaining agreements in specific industries and conducts general studies of wage behavior.

Collective Bargaining

Major Collective Bargaining Negotiations in 1976

On October 6, 1975, the Council announced that it was preparing a background paper on the major collective bargaining negotiations scheduled for 1976, in order to examine some of the factors that would influence collective bargaining in the separate industries negotiating wage agreements in 1976.

The paper was published on January 16, 1976. It included an analysis of negotiations in construction, automobiles, trucking, electrical, rubber, apparel, retail food, and meat packing industries. The paper examined the structure of bargaining in these industries and the pattern of previous settlements. It also traced trends in wages, benefits, labor costs, employment, and productivity for the past few years and analyzed the financial condition of the companies.

The paper was designed as a factual and neutral background document to assist the bargaining parties and to provide information to the press and the general public. In addition, the paper will be the basis for briefings on the bargaining year, from an economic viewpoint, for the Federal Mediation and Conciliation Service.

Construction

The Council has been particularly concerned about negotiations in the construction industry on the West Coast, where settlements have been considerably higher than elsewhere in the United States. Informal discussions were held with representatives of labor and management in the mechanical trades in the San Francisco Bay area and in Washington State prior to last year's bargaining, and a formal hearing was called in July 1975 to examine disturbingly large increases in Seattle.

This year, the Pacific Northwest remains the area of greatest concern, with trend-setting contracts coming up for renegotiation. The Council is maintaining contact with the parties as they prepare to begin talks, but because this area is one of the few where construction activity is potentially strong enough to create a tight labor market, the possibility exists for inflationary settlements that could start a new round of wage increases leapfrogging up and down the West Coast.

Teamster Agreement

The Council will soon release its study of the Teamster agreement. The study is concerned with the impact of the settlement on the economy and on inflation. In particular, it presents the actual and percentage changes in wages and benefits over the next three years under alternative assumptions about the rate of inflation.

Petroleum Refining

The Council analyzed the impact of the 1975 collective bargaining agreement with the Oil, Chemical and Atomic Workers in petroleum refineries nationwide. The study, made in January 1975, concluded that the new agreement would increase wages by about 17 percent in the first year and 27 percent over two years, but that the impact of these increases would be mitigated by the industry's capital-intensive nature and productivity growth.

Postal Service

During the second quarter of 1975, the Council met with chief negotiators for the Postal Service and the four postal unions and monitored negotiations over a new contract for 600,000 postal workers. The analysis of the background for negotiations considered the potential impact of various settlements on postal labor costs and thereby on postal rates. The settlement provided for an increase in base salary of 11.8 percent over the next three years, or a 3.8 percent annual increase, but also provided for semi-annual cost-of-living adjustments that could increase the final cost of the settlement substantially.

Railroads

The Council analyzed the impact of new collective bargaining agreements signed by unions representing 500,000 union employees of the Class I carriers. The study, made in February 1975, concluded that the new agreement would increase wages and benefits by about 13 percent in the first year and by 30 percent or more over three years, and that productivity improvements were not likely to offset the increased labor costs.

Wage Studies

Public Sector Compensation

In preparing its background paper on 1976 collective bargaining negotiations, the Council found data on wages and benefits of state and local government employees too inadequate to analyze public sector employee compensation trends. A preliminary search revealed that federal statistics gathering has not kept pace with the growth of state and local government employment or with the increasing importance of collective bargaining in this sector.

The Council is carrying out a study of how available data on state and local government employee compensation might be expanded and improved. The study will include: (1) a comparison of data now collected on employee compensation in the private sector with that collected for state and local governments; (2) identification of major gaps in the public sector data; (3) recommendations for the collection of additional data; (4) an estimate of the cost of implementing these recommendations, including the burdens imposed on state and local governments. The study is being carried out in cooperation with representatives of state and local governments, employee organizations, and federal statistical agencies.

In May 1975, the President established the Federal Compensation Panel chaired by Vice President Nelson A. Rockefeller. The members of this panel, of which the Council Director was one, reviewed issues concerning the federal pay system. A report to the President was made public. This report included a broad range of recommendations for improving the comarability pay system.

Union Wage Differentials

The Council sponsored a research project by Professor Orley Ashenfelter of Princeton University concerning trends in the relative wage differentials between union and non-union workers. This research grew out of an earlier study of the relationship between industrial concentration and inflation. Some observers have suggested that to the extent that concentrated industries are an engine of inflation, it is a result of the relatively higher wages paid in concentrated industries.

Professor Ashenfelter presented and discussed the draft of his paper, "Union Relative Wage Effects: New Evidence and Survey of their Implications for Wage Inflation", at a public symposium sponsored by the Council on June 2, 1976. The draft concluded that for some groups of workers, the union/nonunion earnings gap is virtually nonexistent, while for other groups, it is quite sizable. Moreover, he suggested that the union/nonunion differential has been widening in recent years and has been consistently larger among black males than among other workers. He also explored alternative theories of the impact of this union wage premium on the rate of change in aggregate wages, and ultimately, on prices.

CHAPTER III
MONITORING FEDERAL ACTIONS

The Council's Office of Government Operations and Research, under the direction of James C. Miller III, is responsible for monitoring activities of the Federal Government that may contribute to inflation. In carrying out its responsibilities, the office helps implement the President's Inflation Impact Statement Program (see Appendix C), participates in regulatory agency proceedings, and sits on the Domestic Council Review Group, which is charged with overseeing the President's regulatory reform initiaties. In these efforts, the Office of Government Operations and Research welcomes suggestions from government officials and the public about Federal activities that may warrant review.

The Council attempts, through formal testimony and informal staff comments, to make government decisionmakers more sensitive to the full economic impact of their agencies' activities. Even though some government actions may impose significant aggregate or sectoral costs upon the economy, they are not necessarily inflationary if they generate benefits that equal or exceed costs. The Council urges agencies proposing cost-increasing actions to assure themselves and the public that the tangible and intangible benefits of such actions exceed the additional direct and indirect costs that would be incurred. It also believes that the same criteria should be used to reassess existing rules, regulations and standards in the light of changing economic circumstances. In addition, agencies are encouraged to make full use of their administrative discretion in the timing of their actions if by so doing short-run inflationary pressures could be eased.

Council actions affecting the Federal sector are summarized below. The Council will be glad to supply the full text of its filings or other actions, and these are listed in Appendix D.

Food and Drugs

Dairy Products

On July 9, 1975, informal comments were submitted to the Food and Drug Administration (FDA) in support of its proposal to require less costly labeling of certain dairy product containers.

On December 4, 1975, at a conference on "Milk Prices and the Market System," sponsored by the Community Nutrition Institute, the Council issued its review of the existing literature on milk marketing regulations. This review, based on reports by the Council's staff and by the Public Interest Economics Center, is part of the Council's continuing study of the economic effects of existing government regulations and of dairy marketing practices.

Comments were filed on February 4, 1976, with the U.S. Department of Agriculture (USDA) on the terms and conditions of the price support program for the 1976-77 marketing years. The Council presented evidence that supporting prices above competitive levels imposes costs on consumers. The Council said that these costs should be given substantial weight in making a decision on support prices. It urged USDA to analyze carefully the costs and benefits of alternative support levels before making a decision. On May 28, 1976, the Council, in a letter to the USDA, reiterated these views in response to a new USDA request for public comment.

Other Food Products

On May 19, 1975, comments were filed concerning an FDA proposal to exempt individually wrapped candies weighing two ounces or less from existing requirements that each wrapper show net content; net contents would be displayed elsewhere on the box or bag of candies at the point of sale. The Council conceded potential savings to consumers but questioned the magnitude of the savings claimed by the National Confectioners' Association. The Council also suggested that the loss of consumer information be weighed carefully against the value of potential savings. On May 20, 1976, FDA withdrew its proposal, concluding that the cost to consumers in reduced information was greater than potential savings to manufacturers.

On October 17, 1975, the Council filed comments on the proposal of the Commissioner of Food and Drugs to adopt regulations establishing a National Shellfish Safety Program. The Council stated that substantially more thorough economic analysis was required before a decision could be made and that technically feasible alternatives should be explored in terms of their cost-effectiveness.

The Council reaffirmed its position on this issue in joint hearings before the House Subcommittee on Fisheries and Wildlife and the Subcommittee on Oceanography on November 7. The hearings were held to consider legislation requiring further economic analysis of FDA's proposal. In early December 1975, FDA announced its decision to withdraw and reconsider its proposed shellfish regulations.

Food Packaging

On December 19, 1975, the Council filed comments with the Food and Drug Administration urging it to evaluate new data and technology before adopting its proposed regulations banning certain uses of polyvinyl chloride for food packaging.

Drained-weight Labeling

On May 12, 1976, the Council supported FDA's proposal to require drained-weight labeling of all canned fruits and vegetables. However, the Council expressed concern about the costs of enforcing the regulations.

The Council said that drained-weight labeling would provide more complete consumer information and thus would encourage comparison shopping and enhance competition in the food industry. In order to avoid undue costs, however, the Council recommended that the FDA make clear that its enforcement policy would involve only flagrant, intentional violations so that canners would not adopt overly costly compliance procedures because of uncertainty about penalties.

Prescription Drugs

Informal comments were submitted to the Federal Trade Commission (FTC) on August 4, 1975, concerning its proposed regulations on the disclosure of retail prices for prescription drugs. The Council favored removal of restrictions on price disclosure and advertising by retail pharmacies because it might lead to greater price competition among pharmacies and thus to lower average prices for prescription drugs.

Transportation

Air Fares

On March 19, 1975, a pleading was filed with the Civil Aeronautics Board (CAB) in support of a petition by National Airlines to provide "no-frills" passenger service at a 35 percent discount. This service was permitted on an interim basis, pending hearings, and several other airlines initiated similar services.

The Council participated in the mid-August CAB hearing on no-frills service and filed comments on September 22. The Council urged the CAB to allow the continuance of this service on grounds that it attracts new customers, improves overall profitability, and helps to solve the industry's overcapacity problem. On November 14, a CAB Administrative Law Judge ruled the no-frills fare to be legal, but the carriers themselves discontinued their no-frills service on April 1, 1976.

A pleading was filed with the CAB on April 1, 1975, in opposition to certain youth, senior citizen, and family discount fares proposed by Trans World Airlines. The Council felt that these special rates were unjustly discriminatory. On June 16, the CAB announced that the carrier had cancelled the proposed fares and related provisions, and the CAB investigations were discontinued.

On April 10, 1975, a pleading was filed with the CAB requesting that it consider a proposal by World Airways, a supplemental carrier, to provide scheduled domestic transcontinental passenger service at a one-way fare of $89. On January 23, 1976, the CAB dismissed the World petitions, and the company is now seeking court review of this decision.

In comments submitted to the CAB on May 16, 1975, the Council supported its proposed rules permitting one-stop inclusive tour and special events charters. The Council noted that these fare discounts might stimulate travel and were essentially nondiscriminatory. In August, the CAB adopted these low-cost charter travel proposals.

On May 16, 1975, the Council filed a pleading with the CAB requesting that it suspend and investigate fare increases asked by Trans World and American Airlines. The Council maintained that the information filed by these airlines did not support any additional increase in fares, and it requested a review of existing standards for rate decisions. On June 13, the CAB suspended the proposed increases and extended the existing domestic rate schedules until January 14, 1976.

The CAB did hold hearings to review standards for setting passenger fares on December 15, 1975. The Council urged the CAB to raise the passenger load factor standard, which currently results in unnecessarily high fares. Investigation of the optimum load factor is still pending.

On August 14, 1975, at the request of Senator John V. Tunney of California, the Council wrote to the Federal Aviation Administration (FAA) about the potential economic impact on U.S. carriers of allowing foreign supersonic planes access to U.S. airports on a regular commercial basis. The Council said that the presently proposed limited operations of the Concorde would likely have little effect on revenues of U.S. airlines and that the increased competition would be beneficial to consumers.

On August 19, 1975, the Council, jointly with the Federal Energy Administration (FEA) and the Department of Transportation (DOT), petitioned the CAB to adopt temporary procedures permitting the airline industry to raise fares to reflect high fuel costs. The proposal would allow short-term fare increases and adjustments in markets of the airlines' own choosing.

The Council filed a complaint with the CAB on August 27, 1975, in which it requested suspension and investigation of the passenger fare fuel surcharge filed by United Airlines, Inc. The stated purpose of the passthrough was to permit carriers to gain prompt relief from the rapid rise in fuel costs that was expected to follow decontrol. However, since decontrol had not yet occurred, the Council could not support the surcharge in anticipation of possible fuel cost increases.

On March 19, 1976, the Council filed comments urging approval of the CAB's proposal to establish "Advance Booking Charters" (ABCs), a new class of low-fare service. It also suggested that the CAB consider certain modifications, such as reducing the minimum advance sign-up period, that would further broaden the availability of these charters. The Council noted that charter flights generally have fuller planeloads

and thus lower costs per passenger mile. In addition, there is no evidence that scheduled service has been substantially impaired by charters.

This endorsement was supplemented by the Council on April 12, when it suggested that the CAB consider allowing scheduled airlines to provide similar ABC service to fill empty seats on scheduled flights and that no minimum rate be required. In the Council's opinion, existing data are adequate for a CAB decision on this matter.

Airline Regulation

On September 15, 1975, comments were filed with the CAB regarding its intention to conduct experiments to evaluate the effects of limiting or removing regulatory constraints on airline operation. The Council said that sufficient information already existed upon which to base a regulatory reform program and that deregulation could proceed on a gradual or phased basis. The CAB eventually announced that it would drop the planned experiment.

James C. Miller III, Council Assistant Director, testified on May 12, 1976, before the House Public Works and Transportation's Subcommittee on Aviation in support of the proposed Aviation Act (H.R. 10261). The Act would establish a policy directing the CAB to rely more on market forces in establishing rates and services and would constrain the Board's powers to interfere with the market. The Council said that the Act would contribute to a more competitive environment in the airline industry, leading to increased efficiency and reducing the inflationary bias of the air transport system.

Mr. Miller testified before the House Science and Technology's Subcommittee on Aviation and Transportation Research and Development on May 20, 1976, about the effect of technological improvement of reforming CAB regulation of the domestic airlines. He maintained that deregulation would have little effect on the total demand for aircraft in the short run; it would probably increase demand over the long run because of greater efficiency in the air service industry. Exposure to competitive pressures would encourage technological adaptation to conditions demanding greater efficiency and lower costs. The Council also recommended exploring alternative approaches to induce energy-saving, noise-reducing innovations.

Rail Service

On November 21, 1975, the Council, in a letter to the Congress, criticized AMTRAK's proposed criteria for deciding which passenger routes it should subsidize and which it should discontinue. The Council recommended that Congress urge AMTRAK to give greater weight to economic criteria. On February 4, 1976, the Council reaffirmed its position at hearings held by the House Interstate and Foreign Commerce's Subcommittee on Transportation and Commerce.

On April 15, 1976, the Council filed comments with the Interstate Commerce Commission (ICC) expressing concern about the Commission's proposed procedure for determining when it would intervene in the setting of railroad rates. Under the Railroad Revitalization and Regulatory Reform Act of 1976, most rail rates would be determined by competitive market forces, except in those cases in which the ICC determines that a railroad possesses market dominance. In the Council's opinion, ICC's proposal for determining market dominance would result in control over the vast majority of rates; this would be contrary to the intent of the Act and to the public interest. The Council suggested a variety of factors that should be considered in balancing the need for intervention in significant cases with that of maintaining a relatively competitive environment in the industry.

Trucking

On December 26, 1976, the Council filed comments with the National Highway Traffic Safety Administration (NHTSA) on its pending standard requiring air brakes in certain trucks. The Council recommended that the standard be postponed until its economic impact had been analyzed by NHTSA and this analysis made public. NHTSA did implement its proposal, but the air brake standard is still under review.

In a NHTSA public hearing on October 30, 1975, in which the air brake standard was considered, the Council criticized the agency for promulgating the new standard without adequate evidence of its economic costs and benefits.

The Council wrote to the ICC on January 14, 1975, to support a petition requesting that private motor freight carriers owned by one corporation be authorized to transport goods for all companies in a parent or subsidiary relationship to that corporation. The Council felt that such action would reduce empty backhauls and conserve fuel. The request was denied, but the ICC has initiated a study of the backhaul problem.

On February 11, 1975, comments were filed with NHTSA concerning its pending performance standards for hydraulic brake systems. The Council recommended that the standard be postponed until the agency had adequately analyzed its economic impact. The standard was deferred until January 1, 1976, for passenger cars and was suspended indefinitely for trucks.

On April 2, 1975, the Council wrote to members of the FTC disagreeing with the FTC's position that allowances covering the full costs of transportation to a customer could be in violation of the Robinson-Patman Act. The Council requested that the Commission allow grocery manufacturers who use a delivered price system to offer actual-cost freight allowances to buyers that would encourage backhaul shipping of goods. The FTC agreed that fuel might be saved, but it questioned the legality of the system.

Intercity Buses

On June 24, 1976, the Council asked the ICC to reevaluate its recent proposals to promulgate comprehensive adequacy-of-service standards for the intercity bus industry. The Council noted that the proposed standards appeared to be very costly and that, in many instances, the benefits flowing to consumers would not be as great as the costs they would bear.

Automobiles

On May 23, 1975, the Council testified on the economic impact of NHTSA's proposed standard requiring that cars for the model year 1977 and after be equipped with passive restraint protection. The Council expressed concern about the total lack of field experience with the installation of "air bags" in small cars. In the Council's opinion, this lack of actual experience left projections of both the costs and the effectiveness of various passive restraint technologies open to serious doubt. The Secretary of Transportation has scheduled a new public hearing on this proposed standard for August 3, 1976.

The Council wrote to NHTSA on June 9, 1975, regarding the Uniform Tire Grading Quality Standards. The Council expressed its satisfaction with the comprehensiveness of NHTSA's Inflationary Impact Statement. However, the Council disagreed with some of the claimed benefits and questioned the accuracy of the cost estimates. This standard is under review by the U.S. Court of Appeals.

In comments filed before the U.S. International Trade Commission (ITC) on September 5, 1975, the Council staff urged the Commission to make the affirmative statutory finding that there is no reasonable indication that passenger automobile imports from Europe and Japan are injurious to the U.S. automobile industry. The Council also maintained that evidence of "dumping" was insufficient.

ITC found that there was reasonable indication of injury to domestic producers, but on May 17, 1976, the Treasury Department tentatively announced the discontinuance of the investigation in veiw of the implementation of voluntary measures.

On November 26, 1975, comments were made to NHTSA concerning regulations requiring detailed cost information from those manufacturers of motor vehicles who oppose NHTSA's safety standards or other proposed actions on the grounds of increased cost. The Council was critical of imposing additional costs on manufacturers and discouraging them from legitmiately speaking out against future NHTSA regulations.

Environment

Noise Standards

On April 7, 1975, the Council filed comments with the FAA opposing noise retrofit standards proposed by the EPA. The Council's review of the proposals concluded that the tangible economic benefits did not appear to be commensurate with costs and that, unless substantial non-economic benefits could be demonstrated, the regulations would be inflationary.

The Council, in a letter to FAA on November 28, 1975, commented favorably on an EPA proposal to the FAA for reducing aircraft noise by revising landing procedures. The Council felt the proposed procedures would result in lower noise levels near airports and would be much less costly than possible alternative techniques for aircraft noise abatement.

On May 9 and July 8, 1975, comments were filed with EPA about its proposed regulations to set stricter noise emission standards for medium and heavy trucks as follows: 83 dB(A) by 1977, 80 dB(A) by 1981, and 75 dB(A) by 1983. The Council commented that the record before EPA justified the additional costs of the 83 dB(A) standard but that further justification was needed for the 80 dB(A) and 75 dB(A) standards.

On April 13, 1976, EPA promulgated an 80 dB(A) noise level standard to become effective January 1, 1982, with an intermediate noise level of 83 dB(A) to be effective January 1, 1978. Further noise level reductions below 80 dB(A) have been postponed.

Air Quality Standards

On October 8, 1975, the Council, in a letter to EPA, commented on its intention to issue regulations regarding light-duty truck emission standards. The Council stated that after a review of the economic impact analysis, EPA should attempt to quantify benefits and resolve discrepancies in cost estimates.

On December 10, 1975, comments were filed with the EPA sharply criticizing proposed regulations to establish uniform pollutant emission standards for new motorcycles. The Council stated that the standard would have a "limited impact on the nation's air quality" but would impose considerable costs upon motorcycle owners.

The Council filed comments with EPA on March 18, 1976, regarding its proposed test standards to measure evaporative hydrocarbon emissions from light-duty vehicles. The Council did not oppose the standard, and it acknowledged that health and welfare considerations might require stricter emission stnadards and test procedures, but it noted that there was a wide disparity in estimates of the cost of implementing the standard. The Council also asked that benefits be estimated in more meaningful terms, such as reduction in illness, rather than in pollutants removed. Finally, the Council requested EPA to consider the timing of the promulgation of this standard in conjunction with that of other new standards for motor vehicles in order to minimize the economic impact on the industry of generally stricter environmental standards.

Comments were filed on April 12, 1976, concerning EPA's proposal to expand the classification of light trucks and to tighten emission standards for these trucks. The Council acknowledged that the proposed regulations would reduce air pollution but noted that they would also increase substantially the cost of light trucks. If this should induce consumers to purchase heavier trucks, fuel use might be increased. The Council urged EPA to investigate the cost-effectiveness of alternative pollution control techniques.

Water Quality Standards

On September 30, 1976, the Council wrote to EPA about its Regulations of Hazardous Substances pursuant to Section 311 of the Federal Water Pollution Control Act. The Council was concerned about the possible divergence of civil penalties from actual damages, and it suggested a means by which a much closer matching between the two could be achieved.

On May 16, 1975, the Council, in a letter to EPA, commended its staff for its comprehensive economic analysis of effluent guidelines for the poultry processing industry. However, the Council said that an attempt to quantify benefits should be made, and it expressed some concern over the estimated costs to both the industry and consumers.

The Council wrote to EPA about its economic analysis of effluent guidelines for the wood furniture and fixture industry on July 3, 1975. Although costs were relatively low, the Council felt that the benefits needed to be subtantiated in order to justify even these low costs.

On October 8, 1975, a letter was written to EPA about its proposed regulations for the iron and steel industry. The Council noted a discrepancy between the data submitted by the American Iron and Steel Institute (AISI) and EPA suggested that they be reconciled before EPA promulgated these standards. The Council also noted the lack of quantified benefits offered in support of the standards and suggested that there are economic variables that EPA could use to approximate the value to society of clean water.

Further comments on EPA's guidelines for the iron and steel industry were filed by the Council on June 24, 1976. The Council requested that EPA evaluate further four basic issues: (1) the economic efficiency of the overall 1983 BAT standards; (2) the cost-effectiveness of the array of particular 1983 BAT standards; (3) the possibility of relaxing the 1977 BPT standards in order to realize long-term savings, even though some short-term--but not long-term--benefits might be sacrificed; and (4) the need for cost-effectiveness analysis of interindustry standards. The Council also took this opportunity to stress its overall approach to the issue of environmental regulation.

Comments were filed with the U.S. Coast Guard on December 4, 1975 criticizing its proposed regulations requiring segregation of oil cargoes from water ballast. The Council stated that the costs of the required changes in ship construction appeared to outweigh potential benefits and that more cost-effective alternatives should be explored.

Additional comments were filed on June 30, 1976 on a new proposal by the Coast Guard to retrofit existing oil tanker ships with segregated ballast facilities. In view of the apparently even higher construction costs of retrofitting, relative to benefits, the Council urged the Coast Guard to consider more flexible and cost-effective methods of achieving the environmental objectives.

Health and Safety

Health Care

On January 13, 1976, the Council filed comments with the FDA in support of proposed regulations requiring labels to distinguish paid from volunteered red blood cells. The Council concluded that the additional information made available to patients and physicians was beneficial to an extent far above costs of such labels. However, the Council urged the FDA to define the terms "paid" and "volunteer" more clearly and to require that the incidence rate of hepatitis associated with the source of the blood be printed on the label.

Regulations proposed by the FTC that would eliminate restrictions against advertising by ophthalmologists, optometrists, and opticians were supported by the Council in a filing on May 7, 1976. The Council felt that the regulations would result in additional information for consumers and would encourage price competition, leading to lower eye care costs for consumers. It was noted that advertising restrictions do not necessarily insure high-quality products and that they are a less efficient means of regulating quality than are performance standards. The FTC was urged to consider also allowing advertising of other presently restricted "professional" products and services.

Occupational Safety

On March 21, 1975, the Council filed comments with the Occupational Safety and Health Administration (OSHA) on its proposed occupational noise level standard. The Council suggested that OSHA and EPA undertake a joint study of the costs and benefits of the various proposals and of less expensive alternatives before adopting any standard. The Council staff testified at public hearings on this matter on June 24, 1975.

OSHA announced on June 18, 1976 that the economic impact analysis on the proposed occupational noise level standard was now available. The Council is reviewing that analysis and is preparing comments and possible testimony for additional OSHA hearings scheduled for August 24, 1976.

The Council's Assistant Director, James C. Miller III, and Senior Economist, John F. Morrall, testified on May 11, 1976 at hearings held by OSHA on its proposed standard for coke oven emissions. The standard was designed to reduce health hazards to which coke oven workers in the steel industry are exposed. The Council expressed serious reservations about both the cost and the benefit data presented by OSHA.

The Council disagreed with OSHA's position that it is not possible to quantify benefits in terms of the dollar value of lives saved and pointed out that the agency's analysis, by presenting estimates of the number of lives saved and the total cost of the standards, did implicitly attach a money value to human life. The OSHA calculation of the number of workers affected was also questioned. In conclusion, the Council felt that the costs of the standard, per worker-life saved, were excessive in comparison with other health and safety programs. OSHA was urged to consider and evaluate other, more cost-effective alternatives.

Product Safety

The Council wrote to the Department of Housing and Urgan Development (HUD) on July 25, 1975 concerning HUD's proposed Mobile Home Construction and Safety Standards. The Council concluded that the economic analysis provided by HUD--except for its energy conservation aspects--did not

contain sufficient information upon which to judge the proposed standard. The Council urged that the effective date of this standard be postponed to permit HUD to complete the needed research and to make such changes in the standard as might be indicated by this research.

On October 3, 1975, comments were filed with the Consumer Product Safety Commission (CPSC) on the safety standard proposed for power lawn mowers. The Council's position was that the analysis, prepared by Consumers Union for CPSC, did not provide a sound basis for making a decision on a standard that would impose very large costs on consumers. The Council urged that only those sections of the standard which could be shown to have benefits larger than costs should be implemented. The deadline for CPSC action on the standard has been extended to April 30, 1977.

The Council sent a letter to CPSC on January 19, 1976 concerning its analysis of ten priority items for standard-setting. The Council was disturbed at the Commission's tendency to downgrade consumer reaction to price increases and other costs that would result from implementation of standards on these items. In addition the Council noted that the impact analyses prepared by CPSC contained only a rough estimate of benefits and no estimates at all of costs; consequently, they do not provide a reasonable guide for setting standards. The Council recommended a strategy of ranking alternative standards in terms of benefits per dollar cost and adopting only those whose benefits are larger than their costs.

On March 15, 1976, the Council filed comments with the CPSC on its proposed Architectural Glazing Materials Safety Standard. The Council did not officially oppose the proposed standard but noted that CPSC appeared to lack data necessary to make an informed decision on the standard. The Council felt that the analysis in this instance was especially important because this represented the first national standard in the building field that the Commission had proposed. The Council pointed out that the CPSC had not adequately considered possible cost savings and did not provide an estimate of the value of injury reduction benefits that might result from the standards.

The CPSC later announced that it was extending its review period to December 1, 1976 in order to respond to the Council's comments before promulgating a standard.

Council comments were filed with the CPSC on June 1, 1976 on the Commission's proposed matchbook standard. Under this standard, matchbooks would be produced under improved quality control conditions; they would have the striking surface on the reverse side and a latching device to inhibit use by children; and they would have a 15-second, self-extinguishing flame. The Council questioned the safety-effectiveness of these measures in that they do not affect wooden matches, which

may be more dangerous; they may encourage consumer shifts to wooden matches or lighters, which are also hazardous; users may simply tear off the matchbook cover if the new form should be awkward to use; and finally, the standards do not address themselves to carelessness in use--a substantial cause of match-related accidents.

The Council also noted that the cost of matchbooks would be raised by the proposed standards and that, if the standard resulted in driving smaller matchbook firms out of business, the cost of reduced competition in the industry should also be considered. The CPSC was urged to develop better data on the cost impact of the standard, on the nature and severity of accidents that might be avoided, and on the new hazards that might be created. It was also advised that it should evaluate separately the cost-effectiveness of each of the standard's requirements. Based on the preliminary evidence, the Council felt the present proposal would be inflationary.

Energy

Gasoline and Oil

On March 21, 1975, comments were filed before the Federal Energy Administration (FEA) in support of a proposed FEA review of existing markup allowances in the retail price of gasoline to account for certain nonproduct costs. The Council recommended that any FEA proposal be accompanied by an Inflation Impact Statement and that this include an estimate of costs.

On August 6, 1975, the Council wrote to FEA about its proposed rules affecting profit-margin limitations used to determine nonproduct cost passthroughs by refiners and marketers. Although the cost analysis appeared reasonable, the Council was concerned over the absence of any benefits. The Council's review concluded that the proposal, as analyzed by the FEA, would only add to inflation.

On June 16, 1975, a letter was sent to FEA regarding its inflation impact analysis of the proposed regulation of the production of the domestic oil classified as "old Crude." The Council did not take issue with the basic program, but it identified areas to which the FEA should devote more systematic analysis.

The Council took exception to an FEA determination that its proposed rule to make degree (API) price differential adjustments in "old crude" sales in California was not a "major" change. On August 11, 1975, the Council wrote to FEA and expressed its concern about the analysis underlying this determination. It concluded that the proposal represented a selective form of decontrol and that FEA should be obligated to analyze the overall impact. FEA subsequently withdrew its proposal.

On October 14, 1975, the Council wrote a letter to FEA commenting on its analysis of alternate oil decontrol options. The Council stated that the analysis itself was relatively complete but suggested ways to make the analysis clearer.

Coal

The Council filed comments with FEA on March 21, 1975 in a rule-making proceeding to establish new coal utilization regulations. The Council recommended that FEA analyze the economic impact of these proposed rules, and it requested FEA to include in this analysis an agency estimate of the cost to consumers as well as to industry.

The Council wrote to FEA on June 18, 1975 regarding its inflation impact analysis of the coal conversion program under the Energy Supply and Environmental Coordination Act of 1974. The Council recommended that FEA include in this analysis the agency's estimate of the cost impact on consumers and a broader range of possible values for important variables.

On April 20, 1976, comments were filed with the Department of Interior (DOI) regarding new proposals to lease coal on federally owned land. The new regulations were intended to assure adequate environmental standards, to discourage speculative practices, and to encourage increased production.

The Council agreed that rapid development of western coal reserves should place substantial downward pressure on coal prices, which had risen sharply after the oil embargo of 1973. However, it felt that the lack of clarity in the proposed regulations would lead to litigation and actually delay new production of coal. The Council questioned the adequacy of data on ownership and geological characteristics of coal lands and on estimates of coal supply and demand. Although the Council recommended that the proposed regulations be issued as soon as possible in order to hasten the development of new coal supplies, it urged their early amendment, and on June 1, 1976, new regulations were issued.

Electric Power

On September 3, 1975, the Council submitted comments to the Federal Power Commission (FPC) regarding proposed rules for the regulation of fuel adjustment provisions in FPC rate schedules and for the collection of data from electric utilities. In the Council's opinion, the proposed rules would facilitate Commission examination of the practices under fuel adjustment clauses and would have the potential for discouraging many of the undesirable consequences that may be associated with fuel adjustment clauses.

On October 7, the Council filed reply comments before the FPC. The Council suggested that making revenues subject to refund should not be used as a "club" against utilities. The Council also suggested that utilities be invited to indicate what information should be kept confidential so that the utilities might negotiate better fuel prices. The Council further suggested that the Commission might benefit from evaluating state experience in this regard.

Assistant Council Director, James C. Miller III testified on June 9, 1976 before FEA with regard to its target standards for increasing the energy efficiency of home appliances. The targets proposed would be set individually for different products, but would aim to increase aggregate efficiency in all home appliances by 20 percent over that existing in 1972. If the suggested improvements, or target standards, were not met by 1980, FEA could set mandatory product standards.

The Council felt that the individual product-line approach taken by FEA was commendable, although the burden of meeting these standards would fall unevenly on different manufacturers. The Council described a methodology for establishing individual targets that would lead to energy efficiency improvement in an economically efficient manner. The objectives of FEA's proposal were generally supported by the Council, but it urged that a complete economic analysis of costs and benefits of the program be undertaken.

Banking and Credit

On May 10, 1976, the Council filed comments before the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board (FRB) criticizing their proposal to restrict the rate of interest paid on pooled time deposits of $100,000 or more. Mutual funds and other financial agents now "pool" the funds of small savers in order to accumulate amounts that can earn interest in excess of the maximum rates set for deposits under $100,000. The FDIC/FRB proposal would prohibit these premium rates on large deposits.

The Council felt that the proposals would not be effective in application but that, even if they were, the cost burden would fall disproportionately on lower and middle income savers. In addition, the Council suggested that the restrictions would result in an inefficient allocation of investment funds, a lower level of savings, and higher cash management costs. The Council also noted that the agencies had not provided an analysis of the social or economic benefits of the proposed regulations.

In comments filed before FDIC and FRB on June 14, 1976, the Council supported a proposal to allow depositors to preauthorize the transfer of dunds from their savings to their checking accounts in order to cover overdrafts that might occur. In the Council's opinion both consumers and businesses would realize savings in the cost of processing returned checks and these savings would exceed the administrative costs of transferring funds from one account to another. In addition, the distinction between savings and demand deposits would be reduced because deposits in interest-bearing savings accounts could be readily used to cover checks drawn on noninterest-bearing demand deposit accounts; this should encourage the holding of money in savings accounts and lead to a more efficient use of financial resources.

Other Actions

Telephone Rates

On January 23, 1975, the Council petitioned the Federal Communication Commission (FCC) to delay effecting a $717 million rate increase filed by the American Telephone and Telegraph Company (AT&T) for its interstate private line, message toll, and WATS line services. The Council requested that FCC call a hearing to investigate the economic impact of any rate level and structure changes requested by AT&T.

The FCC later denied the request for the entire $717 million increase and approved an increase of only $365 million. The economic impact of this increase is currently being investigated in hearings initiated by FCC in response to the requests of the Council and other parties. The Council will participate in this proceeding.

Certification of Housing Managers

The Council staff, on June 24, 1975, wrote to HUD regarding its proposal to require professional certification of housing managers in the public housing program. The Council pointed out problems that often arise with occupational licensing schemes and urged HUD to consider more carefully the potential adverse consequences of its proposal.

LEAA Computers

On September 18, 1975, after receiving data on the so-called "dedicated computer" regulation proposed by the Law Enforcement Assistance Administration (LEAA), the Council wrote a letter to the Department of Justice expressing concern about the cost situation, particularly in view of the contention of some states that the security and privacy objectives of the regulation could be achieved by alternative means which were much less costly than dedicated computers. On October 15, LEAA proposed an amendment which would drop the ban on centralized computer facilities shared by several government agencies.

Footwear Quotas

On December 8, 1975, the Council testified at the International Trade Commission (ITC) hearings on a petition by the American Footwear Industries Association, the Boot and Shoe Workers Union and the United Shoe Workers of America. These organizations had requested relief from increased imports of non-rubber footwear, which they said were causing serious injury to the domestic footwear industry. The Council urged the ITC to recommend against the adoption of quotas on imports of shoes and slippers because the quotas proposed would be unduly restrictive and could raise shoe and slipper prices at retail by as much as $1 billion a year. On April 16, President Ford rejected the petition for quotas.

Postal Service

On January 16, 1976, the Council filed comments with the Postal Rate Commission concerning regulations implementing the Private Express Statutes, which prohibit competition in first-class mail service. The Council urged the Postal Rate Commission to study repeal of the "Private Express Statutes. The Council reasoned that permitting such competition probably would result in significant benefits to the economy and to the mail user. These benefits would take the forms of more efficient mail delivery and slower increases in postal rates in the future. The Council urged that the Commission convene a symposium to appraise the probable consequences of eliminating the present prohibition of postal competition.

Administration of the Davis-Bacon Act

As an alternative to the completion of Inflation Impact Statements for the numerous local wage determinations made by the Department of Labor, the Council, in cooperation with the Labor Department, undertook a study of certain possible inflationary aspects of the way in which the Davis-Bacon Act was being administered. The completed study was sent to Labor Secretary Usery on June 25, 1976. The study found that the administration of the act could be inflationary in some cases. The study recommended that the Department of Labor develop the capability and the data basis necessary for periodically assessing the possible inflationary consequences of the administration of the act.

APPENDIX A

Council Members

The Council consists of eight members and four adviser-members appointed by the President. The Council has a full-time staff headed by a Director who is appointed by the President, with the advice and consent of the Senate. On May 18, 1976, William Lilley III, formerly Deputy Director became the Acting Director succeeding Michael H. Moskow, who went to the Department of Labor as Under Secretary. The current Council membership and the principal staff officers are listed in Chart I.

Council Organization and Staffing

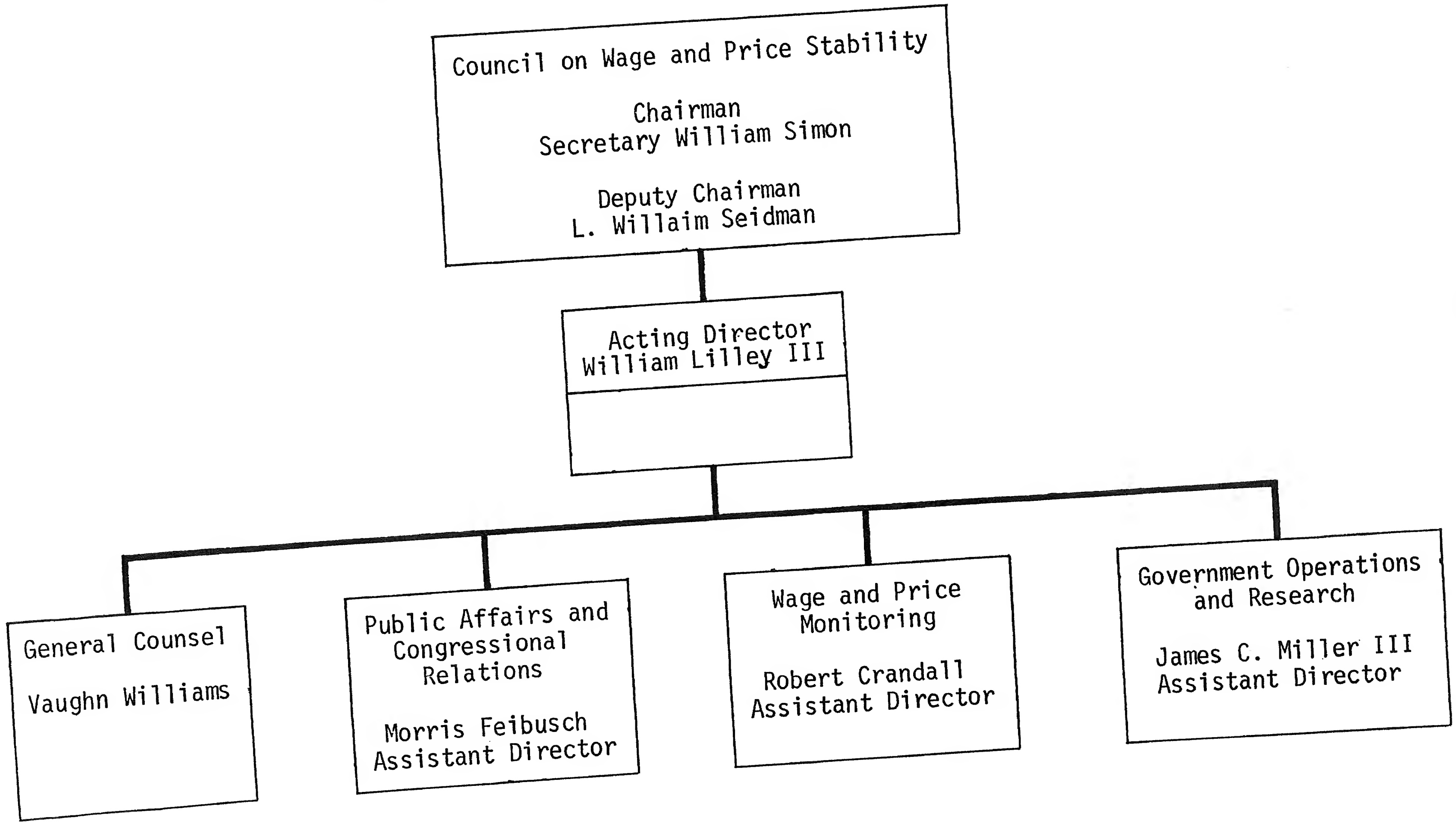
The Council's staff is organized into five units: (i) the immediate Office of the Director, (ii) the Office of Wage and Price Monitoring, (iii) the Office of Government Operations and Research, (iv) the General Counsel's Office and (v) the Office of Public Affairs and Congressional Relations. As of June 30, 1976, the Council's total staff was 55, including 38 professionals, most of whom are economists.

The Council on Wage and Price Stability Act authorizes a $1,7000,000 budget for the Council's operations during each of fiscal years 1976 and 1977. For fiscal year 1976, $1,550,000 has been appropriated for the Council's operations. For fiscal year 1977, $1,607,000 has been requested. This amount will allow the Council to continue its activities at the same level as in the past.

Council on Wage and Price Stability

Chairman	William E. Simon Secretary of the Treasury
Deputy Chairman	L. William Seidman Assistant to the President for Economic Affairs
Acting Director	William Lilley III
Members	
Secretary of Agriculture	Earl L. Butz
Secretary of Commerce	Elliott L. Richardson
Secretary of Labor	W. J. Usery, Jr.
Director of the Office of Management and Budget	James T. Lynn
Special Representative for Trade Negotiations	Frederick B. Dent
Special Assistant to the President for Consumer Affairs	Virginia H. Knauer
Adviser Members	
Assistant Secretary (Planning and Evaluation), Department of Health, Education and Welfare	William A. Morrill
Assistant Attorney General Antitrust Division	Thomas Kauper
Deputy Secretary of Transportation	John W. Barnum
Deputy Administrator of Environmental Protection Agency	John R. Quarles

COUNCIL ON WAGE AND PRICE STABILITY



APPENDIX B

The Council on Wage and Price Stability Act,
Public Law 93-387 (August 24, 1974) as amended
by Public Law 94-78 (August 9, 1975)

AN ACT

To authorize the establishment of a Council on Wage and Price Stability

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Council on Wage and Price Stability Act".

Sec. 2 (a) The President is authorized to establish, within the Executive Office of the President, a Council on Wage and Price Stability (hereinafter referred to as the "Council").

(b) The Council shall consist of eight members appointed by the President and four adviser-members also appointed by the President.

(c) There shall be a Director of the Council who shall be appointed by the President by and with the advice and consent of the Senate. The Director shall be compensated at the rate prescribed for level IV of the Executive Schedule by section 5315 of title 5, United States Code. The Director of the Council shall perform such functions as the President or the Chairman of the Council may prescribe. The Deputy Director shall perform such functions as the Chairman or Director of the Council may prescribe.

(d) The Director of the Council may employ and fix the compensation of such officers and employees, including attorneys, as are necessary to perform the functions of the Council at rates not to exceed the highest rate for grade 15 of the General Schedule under section 5332 of title 5, United States Code. Except that the Director, with the approval of the Chairman may, without regard to the provisions of title 5, United States Code, relating to appointments in the competitive service, appoint and fix the compensation of not to exceed five positions at the rates provided for grades 16, 17, and 18 of such General Schedule, to carry out the functions of the Council.

(e) The Director of the Council may employ experts, expert witnesses, and consultants in accordance with the provisions of section 3109 of title 5, United States Code, and compensate them at rates not in excess of the maximum daily rate prescribed for grade 18 of the General Schedule under section 5332 of title 5, United States Code.

(f) The Director of the Council may, with their consent, utilize the services, personnel, equipment and facilities of Federal, State, regional, and local public agencies and instrumentalities, with or without reimbursement therefor, and may transfer funds made available pursuant to this Act to Federal, State, regional, and local public agencies and instrumentalities as reimbursement for utilization of such services, personnel, equipment, and facilities.

(g) The Council shall have the authority, for any purpose related to this Act, to --

(1) require periodic reports for the submission of information maintained in the ordinary course of business; and

(2) issue subpenas signed by the Chairman or the Director for the attendance and testimony of witnesses and the production of relevant books, papers, and other documents, only to entities whose annual gross revenues are in excess of $5,000,000;

relating to wages, costs, productivity, prices, sales, profits, imports, and exports by product line or by such other categories as the Council may prescribe. The Council shall have the authority to administer oaths to witnesses. Witnesses summoned under the provisions of this section shall be paid the same fees and mileage as are paid to witnesses in the courts of the United States. In case of refusal to obey a subpena served upon any person under the provisions of this section, the Council may request the Attorney General to seek the aid of the United States district court of any district in which such person is found, to compel that person, after notice, to appear and give testimony, or to appear and produce documents before the Council.

Sec. 3 (a) The Council shall --

(1) review and analyze industrial capacity, demand, supply, and the effect of economic concentration and anticompetitive practices, and supply in various sectors of the economy, working with the industrial groups concerned and appropriate governmental agencies to encourage price restraint;

(2) work with labor and management in the various sectors of the economy having special economic problems, as well as with appropriate government agencies, to improve the structure of collective bargaining and the performance of those sectors in restraining prices;

(3) improve wage and price data bases for the various sectors of the economy to improve collective bargaining and encourage price restraint;

(4) conduct public hearings necessary to provide for public scrutiny of inflationary problems in various sectors of the economy;

(5) focus attention on the need to increase productivity in both the public and private sectors of the economy;

(6) monitor the economy as a whole by acquiring as appropriate, reports on wages, costs, productivity, prices, sales, profits, imports, and exports;

(7) review and appraise the various programs, policies, and activities of the departments and agencies of the United States for the purpose of determining the extent to which those programs and activities are contributing to inflation; and

(8) intervene and otherwise participate on its own behalf in rulemaking, ratemaking, licensing and other proceedings before any of the departments and agencies of the United States, in order to present its views as to the inflationary impact that might result from the possible outcomes of such proceedings.

(b) Nothing in this Act, (1) authorizes the continuation, imposition, or reimposition of any mandatory economic controls with respect to prices, rents, wages, salaries, corporate dividends, or any similar transfers, or (2) affects the authority conferred by the Emergency Petroleum Allocation Act of 1973.

Sec. 4 (a) Any department or agency of the United States which collects, generates, or otherwise prepares or maintains data or information pertaining to the economy or any sector of the economy shall, upon the request of the Chairman of the Council, make that data or information available to the Council.

(b) Disclosure of information obtained by the Council from sources other than Federal, State, or local government agencies and departments shall be in accordance with the provisions of section 552 of title 5, United States Code.

(c) Disclosure by the Council of information obtained from a Federal, State, or local agency or department must be in accord with section 552 of title 5, United States Code, and all the applicable rules of practice and procedure of the agency or department from which the information was obtained.

(d) Disclosure by a member or any employee of the Council of the confidential information as defined in section 1905 of title 18, United States Code, shall be a violation of the criminal code as stated therein.

(e) Consistent with the provisions of section 7213 of the Internal Revenue Code of 1954, nothing in this Act shall be construed as providing for or authorizing any Federal agency to divulge or to make known to the Council the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed solely in any income return, or to permit any income tax return filed pursuant to the provisions of the Internal Revenue Code of 1954, thereof, to be seen or examined by the Council.

(f)(1) Product line or other category information relating to an individual firm or person and obtained under section 2(g) shall be considered as confidential financial information under section 552(b)(4) of title 5 of the United States Code and shall not be disclosed by the Council.

(2) Periodic reports obtained by the Council under section 2(g) and copies thereof which are retained by the reporting firm or person shall be immune from legal process.

Sec. 5. The Council shall report to the President, and through him to the Congress, on a quarterly basis and not later than thirty days after the close of each calendar quarter, concerning its activities, findings, and recommendations with respect to the containment of inflation and the maintenance of a vigorous and prosperous peacetime economy.

Sec. 6. There is hereby authorized to be appropriated not to exceed $1,700,000 for each fiscal year ending prior to October 1, 1977 to carry out the purposes of the this Act.

Sec. 7. The authority granted by this Act terminates on September 30, 1977.

INFLATION IMPACT STATEMENT PROGRAM

The Council plays a major role in the President's Inflation Impact Statement Program.* The purpose of this program is to encourage Federal agencies to take greater account of the economic effects of their proposals for major new rules, regulations and legislation. When such a proposal is major (in terms of its cost impact on consumers, business, or Federal, state or local governments; or its effect on productivity, competition, employment or energy) a full economic analysis (Inflation Impact Statement) must be prepared by the proposing agency. If the Inflation Impact Statement relates to a proposed rule or regulation, it is the Council's responsibility to review it. If the statement relates to proposed legislation, responsibility for its review belongs to the Office of Management and Budget.

Executive Branch agencies are required initially to submit to the Council only brief summaries of the economic impact of proposed major new rules and regulations. If, after reviewing these summaries, the Council has questions either about the summary or proposal itself, the Council may ask the agency to submit the complete economic analysis on which the summary was based.

After review of the agency's analysis, the Council may decide to make formal comments to the agency about the quality of its Inflation Impact Statement analysis and/or about the economic consequences of the regulatory proposal. It should be noted that criticism of an Inflation Impact Statment does not necessarily mean that the Council objects to the proposed regulation. It may mean simply that the Council thinks the agency should provide a better analysis of the regulation's likely economic effects. One of the Council's major aims is to help agencies improve the quality of their economic analysis so that important regulatory decisions are made with fuller awareness of their economic consequences.

Progress has been made in the administration of this program. In consultation with OMB and the Council, agencies have established criteria for identifying those proposals which are important enough to warrant an Inflation Impact Statement. Problems which were serious at the program's outset--particularly tardy compliance and uneven analytical quality--are gradually being resolved. While the Council has filed critical comments in a number of rulemaking proceedings, most agencies are making a commendable effort to analyze more carefully the major rules and regulations they issue.

* Established by Executive Order No. 11821 issued November 27, 1974, and OMB Circular No. A-107, issued January 28, 1975.

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Concentrated Industries, Administered Prices, and Inflation: A Survey of Recent Empirical Research. (Beals, Ralph E.). June 17, 1975. 45 pp.

Price Behavior During the 1973-75 Recession. May 11, 1976. 47 pp.

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An Analysis of Certain Aspects of the Administration of the Davis-Bacon Act. June 25, 1976. 14 pp.

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Cost of Living Escalator Clauses and Inflation. (Douty, H.M.). August, 1975. 77 pp.

Union Relative Wage Effects: New Evidence and a Survey of Their Implications for Wage Inflation. (Ashenfelter, Orley). June 2, 1976. 22 pp.

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Report on Prices for Agricultural Machinery and Equipment. May, 1976. 37 pp.

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Report on Family Flour Prices. October 29, 1975. 8 pp.

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Marketing Spreads for Food Products. May, 1976. 49 pp.

Review of Economic Literature on Milk Regulation. (Public Interest Economics Center). December, 1975. 66 pp.

Staff Report on Shelf Inventory Repricing. December 6, 1974. 5 pp.

Staff Report on Sugar Prices. May, 1975. 97 pp.

Metals

Staff Report on Aluminum Price Hearings. July 31, 1975. 2 pp.

Metal Can Prices. June, 1975. 36 pp.

Report on Steel Prices. June, 1976. 36 pp.

A Study of Steel Prices. July, 1975. 85 pp.

Untitled paper synthesizing the discussion at the CWPS' December 16 steel symposium. (Marshall, Paul). April 27, 1976. 84 pp.

Other Industries

Staff Report on Antifreeze Prices. May 4, 1976. 27 pp.

1976 Automobile Prices. November 11, 1975. 9 pp.

Automobile Prices: January, 1976. January 12, 1976. 4 pp.

A Study of Coal Prices. March, 1976. 97 pp.

Health

The Problem of Rising Health Care Costs. April, 1976. 30 pp.

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TRANSPORTATION

Civil Aeronautics Board (CAB)

National Airlines Proposed "No Frills" Promotional Fare. Dockets 27607 and 27610. March 19, 1975.

Trans World Airlines Proposed 1975 Youth, Senior Citizen, and Family Fares. Dockets 27657, 27658, 27661, and 27685. April 1, 1975.

World Airways, Inc. Application for a Certificate of Public Convenience and Necessity, Transcontinental Scheduled Source. Docket 27693. April 10. 1975.

Supplemental Notice of Proposed Rulemaking, One Stop Inclusive Tour Charters (40 FR 17039). Docket 27135. May 16, 1975.

Supplemental Notice of Proposed Rulemaking, Special Event Charters (40 FR 18003). Docket 26810. May 16, 1975.

American Airlines, Inc. 6 Percent Domestic Passenger Fare Increase. Docket 27947. May 16, 1975.

Trans World Airlines 5 Percent Domestic Passenger Fare Increase. Docket 27947. May 16, 1975.

Joint Petition for Emergency Procedures, Council on Wage and Price Stability, Department of Transportation, and Federal Energy Administration. Docket 28191. August 19, 1975.

Braniff Airways, Inc., Continental Airlines, Inc., Frontier Airlines, Inc., and Trans World Airlines, Inc., Domestic Passenger Fare Increases. Docket 28235. August 27, 1975.

United Air Lines, Inc. Passenger Fare Fuel Surcharge. Docket 28235. August 27, 1975.

Civil Aeronautics Board Proposed Experimental Program to Test Consequences of Deregulation (40 FR 28721). Docket 28048. September 15, 1975.

National Airlines Proposed "No Frills" Promotional Fare, Supplemental Comments. Dockets 27607 and 27610. September 22, 1975.

Domestic Load Factor Standards. Docket 27417. December 15, 1975.

Notice of Proposed Rulemaking, Advance Booking Charters (41 FR 7417). Docket 28852. March 19, 1976.

Notice of Proposed Rulemaking, Advance Booking Charters (41 FR 7417), Supplemental Comments. Docket 28852. April 12, 1976.

U. S. Coast Guard

Tank Vessels Carrying Oil in Domestic Trade (40 FR 28289). CGD - 201. December 4, 1975.

Tank Vessels Segregated Ballast Retrofit: Foreign and Domestic (41 FR 19672). CGD 76-075. June 30, 1976.

Federal Aviation Administration (FAA)

Aircraft Noise Retrofit Requirements (40 FR 9218). Docket ACG - 24. April 7, 1975.

Aircraft Noise Retrofit Requirements (40 FR 9218). Docket AGC - 24/ Further Comments to EPA on April 7 Filing. May 9, 1975.

Noise Requirements Submitted to FAA by EPA on Civil Supersonic Airlines. Docket 10494. August 14, 1975.

Interstate Commerce Commission (ICC)

Findings of Market Dominance (41 FR 11034). Ex Parte No. 320. April 15, 1976.

Interstate Transportation of Passengers by Motor Common Carriers (40 FR 30134). Ex Parte No. MC - 95. June 24, 1976.

National Highway Traffic Safety Administration (NHTSA)

Motor Vehicle Safety Standard 121, Air Brake Systems (39 FR 43629). Docket 74-10, Notice 8. December 26, 1974.

Motor Vehicle Safety Standard 105-75, Hyrdraulic Brake Systems (40 FR 4673). Docket 70-27. February 11, 1975.

Motor Vehicle Safety Standard 208, Occupant Crash Protection. Testimony before NHTSA Public Meeting. May 23, 1975.

Motor Vehicle Safety Standard 121, Air Brake Systems. Testimony before NHTSA Public Meeting. October 30, 1975.

Cost Information Reporting (40 FR 42365). Docket 70-25, Notice 1. November 26, 1975.

HEALTH, SAFETY, AND THE ENVIRONMENT

Environmental Protection Agency (EPA)

Transportation Equipment Noise Emission for Medium and Heavy Duty Trucks (39 FR 38338). Docket PNAC 74-1. May 9, 1975.

Transportation Equipment Noise Emission for Medium and Heavy Duty Trucks, Additional Comments (39 FR 38338). Docket PNAC 74-1. July 8, 1975.

Noise Abatement Regulation Submitted by EPA to FAA (40 FR 44256). Docket 15020, Notice 75-35. November 28, 1975.

Emission Regulations for New Motorcycles (40 FR 49496). Docket AW-455. December 10, 1975.

Proposed Evaporative Emission Regulations for Light Duty Vehicles and Trucks (41 FR 2022 and 41 FR 7966). 40 CFR Part 86. March 18, 1976.

Proposed Revised Light Duty Truck Regulations for 1978 and Later Model Year Vehicles (41 FR 6279). 40 CRF Part 86. April 12, 1976.

Effluent Guidelines and Standards for Existing and New Sources in the Iron and Steel Manufacturing Point Source Category (41 FR 12990 and 41 FR 13015). 40 CFR 420. June 24, 1976.

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